

COVENTURE INTERNATIONAL INC  
Form 10QSB  
December 15, 2004

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-QSB**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended **October 31, 2004**

Commission File Number: **0-31539**

**COVENTURE INTERNATIONAL INC.**

(Exact name of small business issuer as specified in its charter)

**Delaware**  
(Jurisdiction of Incorporation)

**98-0231607**  
(I.R.S. Employer  
Identification No.)

**404 First Street West, Unit 3**  
**Cochrane, Alberta, Canada T4C 1A5**  
(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: **(403) 851-2600**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.) Yes  No

As of November 30, 2004 the Company had 7,022,200 shares of common stock issued and outstanding.

---

INDEX

PART I FINANCIAL INFORMATION

<u>ITEM 1 Financial Statements</u>	<u>F-1</u>
------------------------------------	------------

<u>Consolidated Balance Sheets at October 31, 2004 (unaudited) and July 31, 2004</u>	<u>F-2</u>
--	------------

<u>Consolidated Statements of Operations for the three months ended October 31, 2004 and 2003 (unaudited)</u>	<u>F-3</u>
---	------------

<u>Consolidated Statements of Cash Flows for the three months ended October 31, 2004 and 2003 (unaudited)</u>	<u>F-4</u>
---	------------

<u>Notes To Consolidated Financial Statements</u>	<u>F-5- F-8</u>
---	-----------------

<u>ITEM 2 Management's Discussion and Analysis or Plan of Operation</u>	<u>9</u>
---	----------

<u>ITEM 3 Controls and Procedures</u>	<u>13</u>
---------------------------------------	-----------

PART

II OTHER INFORMATION

<u>ITEM 1 Legal Proceedings</u>	<u>14</u>
---------------------------------	-----------

<u>ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>14</u>
---	-----------

<u>ITEM 3 Defaults upon Senior Securities</u>	<u>14</u>
---	-----------

<u>ITEM 4 Submission of Matters to a Vote of Security Holders</u>	<u>14</u>
---	-----------

<u>ITEM 5 Other Information</u>	<u>14</u>
---------------------------------	-----------

<u>ITEM 6 Exhibits</u>	<u>14</u>
------------------------	-----------

SIGNATURES

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The accompanying consolidated balance sheets of Coventure International Inc. and subsidiary at October 31, 2004 and July 31, 2004 and the consolidated statement of operations and consolidated statement of cash flow for the three months ended October 31, 2004 and 2003 have been prepared by the Company's management in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Operating results for the three months ended October 31, 2004, are not necessarily indicative of the results that can be expected for the year ending July 31, 2005.

F-1

---

**Coventure International Inc.**

## Consolidated Balance Sheets

(expressed in U.S. dollars)

	October 31, 2004 \$ (Unaudited)	July 31, 2004 \$ (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	1,719	9,900
Accounts receivable, net of allowance for doubtful accounts of \$6,599 and \$3,337, respectively	4,563	5,300
Prepaid expenses and deposits	1,785	1,600
<b>Total Current Assets</b>	<b>8,067</b>	<b>7,900</b>
Property and Equipment (Note 3)	35,716	20,900
<b>Total Assets</b>	<b>43,783</b>	<b>28,800</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable	45,082	24,900
Accrued liabilities	2,750	8,700
Deferred revenue	46,355	49,000
Due to related parties (Note 4)	82,673	55,500
<b>Total Current Liabilities</b>	<b>176,860</b>	<b>138,300</b>
Due to related parties (Note 4)	25,862	24,000
<b>Total Liabilities</b>	<b>202,722</b>	<b>162,300</b>
Contingencies and Commitment (Notes 1, 5 and 6)		
Stockholders' Deficit		
Preferred Stock:		
5,000,000 shares authorized, \$0.0001 par value, none issued	—	—
Common Stock:		
30,000,000 shares authorized, \$0.0001 par value		
7,022,200 shares issued and outstanding	702	700
Additional Paid-in Capital	139,280	139,200
Accumulated Other Comprehensive Loss	(9,290)	(9,200)

Deficit	(289,631)	(272,5
Total Stockholders' Deficit	(158,939)	(133,5
Total Liabilities and Stockholders' Deficit	43,783	28,8

F-2

---

**Coventure International Inc.**

## Consolidated Statements of Operations

(expressed in U.S. dollars)

(Unaudited)

	Three Months Ended	
	October 31, 2004	October 31, 2003
	\$	\$
Revenue	67,023	9,587
Expenses		
Advertising and promotion	10,748	4,047
Amortization	2,614	355
Commissions	5,266	2,941
General and administrative	30,949	6,725
Management fees and wages (Note 4)	6,169	12,915
Professional fees	3,000	7,000
Subcontract	25,396	1,344
Total Expenses	84,142	35,327
Net Loss	(17,119)	(25,740)
Net Loss Per Share – Basic and Diluted	–	–
Weighted Average Shares Outstanding	7,022,000	6,998,000

F-3

**Coventure International Inc.**

## Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

(Unaudited)

	Three Months Ended	
	October 31, 2004	October 31, 2003
	\$	\$
<b>Cash Flows From (To) Operating Activities</b>		
Net loss	(17,119)	(25,740)
<b>Adjustment to reconcile net loss to net cash used in operating activities</b>		
Amortization	2,614	355
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	801	(19,314)
Prepaid expenses and deposits	(149)	(825)
Accounts payable and accrued liabilities	16,656	7,775
Due to related parties	11,686	-
Deferred revenue	(2,734)	30,722
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>11,755</b>	<b>(7,027)</b>
<b>Cash Flows To Investing Activities</b>		
Purchase of property and equipment	(17,395)	(8,132)
<b>Net Cash Used In Investing Activities</b>	<b>(17,395)</b>	<b>(8,132)</b>
<b>Cash Flows From Financing Activities</b>		
Advances from related parties	15,092	-
Proceeds from issue of common stock	-	12,000
<b>Net Cash Provided By Financing Activities</b>	<b>15,092</b>	<b>12,000</b>
Effect of Exchange Rate Changes on Cash	(6,167)	-
<b>Net Increase (Decrease) in Cash</b>	<b>3,285</b>	<b>(3,159)</b>
Cash – Beginning of Period	940	4,992
Cash – End of Period	4,225	1,833
Non-cash Investing and Financing Activities	-	-
<b>Supplemental Disclosures</b>		
Interest paid	-	-

Income taxes paid

-

-

F-4

---



**Coventure International Inc.**

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

October 31, 2004

(Unaudited)

1. Nature of Operations and Continuance of Business

Coventure International Inc. (the "Company") was incorporated in the State of Delaware, U.S.A. on March 31, 1999 as Bullet Environmental Systems, Inc. and changed its name on May 25, 2000 to Liquidpure Corp. On February 14, 2002, the Company changed its name to Coventure International Inc. These financial statements include the accounts of the Company and its wholly-owned subsidiary Coventure Canada Inc. (the "Subsidiary"). The Subsidiary was incorporated in the Province of Alberta, Canada on February 5, 2002.

The Company is engaged in the business of providing management consulting, accounting and tax services.

The Company's planned principal activities have commenced and the Company has generated sufficient revenues that indicate planned principal activities have commenced. As a result, the Company emerged from the development stage during the 2004 fiscal year. As at October 31, 2004, the Company has a working capital deficiency of \$168,793, and accumulated losses of \$289,631 since inception. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations and to generate profitable operations. There is no guarantee that the Company will be able to raise any equity financing or generate profitable operations. These financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

2. Summary of Significant Accounting Policies

(a) Fiscal Year

The Company's fiscal year end is July 31.

(b) Basis of Presentation

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States and are presented in U.S. dollars. All significant intercompany transactions and balances have been eliminated.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

(e) Property and Equipment

Property and equipment consists of furniture and equipment and leasehold improvements and is recorded at cost. Furniture and equipment and leasehold improvements are being amortized on a straight-line basis over their estimated useful lives of four years and three years, respectively.

(f) Long-Lived Assets

In accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets”, the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

**Coventure International Inc.**

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

October 31, 2004

(Unaudited)

2. Summary of Significant Accounting Policies (continued)

(g) Foreign Currency Transactions/Balances

The Company's functional currency is the Canadian dollar. Occasional transactions occur in U.S. dollars, and management has adopted SFAS No. 52, "Foreign Currency Translation". Assets and liabilities denominated in foreign currencies are translated into US dollars at rates of exchange in effect at the balance sheet date. Average rates for the year are used to translate revenues and expenses. Resulting translation gains and losses are accumulated in a separate component of stockholders' equity as accumulated other comprehensive income or loss.

(h) Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109 "Accounting for Income Taxes" as of its inception. Pursuant to SFAS No. 109 the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefit of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

(i) Concentrations

The fair value of financial instruments which include cash, accounts receivable, accounts payable, accrued liabilities, due to related parties and deferred revenue were estimated to approximate their carrying value due to the immediate or relatively short maturity of these instruments. The Company's operations are in Canada and virtually all of its assets and liabilities are giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(j) Stock-Based Compensation

The Company has elected to apply the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under the intrinsic value method of accounting, compensation expense is recognized if the exercise price of the Company's employee stock options is less than the market price of the underlying common stock on the date of grant. Stock-based compensation for employees is recognized on the straight-line basis over the vesting period of the individual options. Stock options granted to non-employees are accounted for under Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (SFAS 123), which establishes a fair value based method of accounting for stock-based awards, and recognizes compensation expense based on the fair market value of the stock award or fair market value of the goods and services received, whichever is more reliably measurable. Under the provisions of SFAS 123, companies that elect to account for stock-based awards in accordance with the provisions of APB 25 are required to disclose the pro forma net income (loss) that would have resulted

from the use of the fair value based method under SFAS 123. The Company has not granted any stock-based awards since inception.

(k) Revenue Recognition

The Company recognizes revenue from the sale of services in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 (“SAB 104”), “Revenue Recognition in Financial Statements.” Revenue consists of consulting services and is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility is reasonably assured.

The Company continually monitors timely payments and assesses any collection issues. The allowance for doubtful accounts is based on the Company’s detailed assessment of the collectibility of specific customer accounts. Any significant accounts that are not expected to be collected are excluded from revenue. Deferred revenue represents customer deposits, which are recognized as revenue once the criteria for SAB 104 have been met.

**Coventure International Inc.**

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

October 31, 2004

(Unaudited)

2. Summary of Significant Accounting Policies (continued)

(l) Comprehensive Loss

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income and its components in the financial statements. For the three months ended October 31, 2004, the Company had a comprehensive loss of \$25,428, which includes a foreign currency translation loss of \$8,309.

(m) Basic and Diluted Net Income (Loss) per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share" (SFAS 128). SFAS 128 requires presentation of both basic and diluted earnings per shares (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using the treasury stock method, and convertible preferred stock, using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential common shares if their effect is anti-dilutive.

(n) Recent Accounting Pronouncement

In December 2003, the United States Securities and Exchange Commission issued Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"), which supersedes SAB 101, "Revenue Recognition in Financial Statements." The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely

unchanged by the issuance of SAB 104. The adoption of SAB 104 did not have a material impact on the Company's financial statements.

(o) Interim Financial Statements

These interim unaudited consolidated financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.

3. Property and Equipment

	Cost \$	Accumulated Amortization \$	October 31, 2004 Net Carrying Value \$ (Unaudited)	July 31, 2004 Net Carrying Value \$ (Audited)
Furniture and equipment	37,136	(6,601)	30,535	15,792
Leasehold improvements	6,907	(1,726)	5,181	5,143
	44,043	(8,327)	35,716	20,935

4. Related Party Transactions/Balances

- (a) The President of the Company is owed \$76,647 (July 31, 2004 - \$34,819) for cash advances and expenses paid on behalf of the Company. This amount is non-interest bearing, unsecured and due on demand.
- (b) A company controlled by a relative of the President of the Company is owed \$NIL (July 31, 2004 - \$14,000) for cash advances to the Company. This amount was secured by a non-interest bearing promissory note due on demand, and was repaid in full during the three-month period ended October 31, 2004.

**Coventure International Inc.**

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

October 31, 2004

(Unaudited)

## 4. Related Party Transactions/Balances (Continued)

- (c) A company controlled by the President of the Company is owed \$4,432 (July 31, 2004 - \$5,307), which is non-interest bearing, unsecured and due on demand.
- (d) During the prior fiscal year ended July 31, 2004, the President advanced a loan to the Company. As of October 31, 2004, the amount of the loan includes a foreign currency translation loss of \$2,294 on the principal balance remaining.

	October 31, 2004 \$ (Unaudited)	July 31, 2004 \$ (Audited)
Monthly payments of \$451 (CDN\$550) including principal and interest at 14.75% per annum, unsecured and due on November 24, 2008.	27,456	25,489
Less: current portion	1,594	1,411
	25,862	24,078

Principal payments over the next five fiscal years are expected to be as follows:

2005	\$	1,520
2006		1,746
2007		2,013
2008		2,317
2009		19,860
	\$	27,456

- (e) During the three months ended October 31, 2004, the Company paid management fees of \$5,000 (2003 - \$12,434) to the President of the Company.

## 5. Commitments

The Company entered into an operating lease for office premises. The lease calls for monthly payments of CDN\$1,174 commencing September 1, 2003 for a term of 3 years. In addition the Company is responsible for its proportionate share of operating costs, currently at CDN\$312 per month.

## 6. Subsequent Events

- (a) In November, 2004 the Company entered into a Finder's Fee agreement with company controlled by a relative of the President of the Company, where the Company will pay \$20,000 subject to the closing of an acquisition or a merger by the Company.
- (b)

In November, 2004 the Company entered into a Letter of Intent to acquire a Delaware corporation engaged in the business of acquiring and developing certain oil and gas exploration licenses located in south-eastern Hungary in exchange for 2,125,000 common shares. Closing of the proposed transactions will be subject to certain conditions, including the closing of a financing of \$25,000,000 at a price of \$10.00 per share, the return to treasury of 5,375,000 shares of common stock held by the President of the Company and the sale of the Subsidiary to the President of the Company in exchange for the return forgiveness of debts. The Company will forward split its common share capital on the basis of four new shares for each one old share as part of the transaction.

- (c) Also in November 2004 the Company entered into an Engagement Letter pursuant to which it has appointed an agent for the Financing. The Company has agreed to pay an 8% cash fee and issue warrants to purchase 10% of the number of shares issued for a period of two years.

F-8

---



## **Item 2. Management's Discussion and Analysis or Plan of Operation**

The following discussion and analysis explains the major factors affecting our financial condition. The following discussion of our financial condition and plan of operations should be read along with the financial statements and notes to the financial statements included elsewhere in this quarterly report.

In the fall of 2003 we began providing accounting, tax and business consulting services to small and medium sized businesses in-and-around the Calgary, Alberta region. The consulting services are designed to improve a client's profitability through strategic analysis, planning, consulting and ongoing evaluation. Our core services attempt to identify inefficiencies and trouble spots in a business before they cause significant problems.

Our original plan of business was to leverage the experience from this regional office to template offices throughout Canada through a network of regionally licensed operators. We have to date been unable to secure the necessary financing to establish a network of regionally licensed operators and have determined that it would be in our best interests to seek to locate an adequately financed venture partner which is seeking the benefits of being publicly traded with which to merge. Our management reached this determination due to the fact that, while our core business has achieved marginal profitability, the costs incurred in registering our common stock with the Securities and Exchange Commission and the ongoing costs of maintaining such registration have resulted in unsustainable financial losses.

### **Results of Operations**

As of October 31, 2004, we had approximately 80 clients between our two offices. These clients are small and medium sized businesses that have selected one of our standard programs that incorporate tax and business advisory services for a one-year initial period. Client response has been strong and we have implemented numerous refinements to our programs from our experience with our clients. As a result of the foregoing, our revenue for the three month period ended October 31, 2004 has increased to \$67,023 from \$9,587 for the three month period ended October 31, 2003. However, the increased revenue has been matched by increased expenses (\$84,142 for the three month period ended October 31, 2004 as compared to \$35,327 for the three month period ended October 31, 2003) and as a result our net loss for the three month period ended October 31, 2004 was \$17,119 as compared to \$25,740 in the previous period. In addition, our loss from inception is now \$289,631.

During the three month period ended October 31, 2004 our operations generated \$11,755 in cash and we spent \$17,395 on office equipment and leasehold improvements. Operating capital was provided from loans from related parties (\$15,092).

### **Liquidity and Capital Resources**

At October 31, 2004 we had total current assets of \$8,067 and a working capital deficit of \$168,793. Our business has operated at a loss since inception and we have been unable to obtain adequate financing to continue our current operations.

As a result of these losses our management began seeking an adequately financed venture partner which is seeking the benefits of being publicly traded with which to merge. To this end we entered into a finder's fee agreement with a company controlled by a relative of our President, pursuant to which we have agreed to pay a finder's fee of \$20,000 upon closing of a merger transaction introduced to us by such company.

As a result of such introduction we entered into a Letter of Intent and Engagement Letter as discussed below. There is no guarantee that the transactions contemplated by the Letter of Intent and Engagement Letter will close. In the event that the transactions contemplated by the Letter of Intent and Engagement Letter do not close and we are unable to find another suitable venture partner, or we are unable to raise additional capital, we will be forced to suspend our filing obligations with the Securities and Exchange Commission, resulting in our common stock being delisted from the over-the-counter Bulletin Board.

### **Letter of Intent and Engagement Letter**

We have entered into a non-binding letter of intent (the "Letter of Intent") with Mako Energy Corporation (the "Target") and Marc. A. Bruner, the principal shareholder of the Target, pursuant to which we have agreed to acquire all of the issued and outstanding equity securities of the Target. The Target is a Delaware corporation engaged in the business of acquiring and developing certain oil and gas exploration licenses located in south-eastern Hungary known as the Mako Exploration License and the Tisza Exploration License.

We have also entered into a non-binding engagement letter (the "Engagement Letter") with the Target and McFarlane Gordon Inc., a registered broker-dealer located in Toronto, Ontario (the "Agent"), pursuant to which the Agent has been appointed as lead agent for the offering by us of 2,500,000 shares of our common stock at a price of \$10.00 per share for gross proceeds of \$25,000,000 (the "Financing").

The Letter of Intent provides for the acquisition by us of the Target in exchange for 2,125,000 shares of our common stock. Closing of the transactions contemplated by the Letter of Intent will be subject to certain conditions, including:

- the Agent having received subscriptions for the Financing;
- the return to treasury of 5,375,000 shares of our common stock held by our principal stockholder, John Hromyk; and
- the sale by us of our wholly-owned subsidiary, Coventure Canada Inc., to Mr. Hromyk in exchange for the return forgiveness of debts owed by us to Mr. Hromyk.

Post-closing obligations will include: the increase of our authorized common stock to 50,000,000 shares; a four-for-one split of our common stock; the change of our name to "Mako Energy Corporation"; the election of nominees of the Target to our board of directors; the ratification of the sale of Coventure Canada Inc. to Mr. Hromyk; and the adoption of a Key Employee Stock Option Plan.

Either party may terminate the Letter of Intent in the event that a definitive agreement is not signed prior to December 23, 2004.

The net proceeds of the Financing are to be used for the acquisition, exploration, and development of the Mako Exploration License and the Tisza Exploration License, and the balance for general working capital purposes.

We have agreed to pay to the Agent a cash fee of 8% of the proceeds of the Financing and warrants to purchase 10% of the number of shares issued at a price of \$10.00 per share exercisable for a period of two years following the satisfaction of the Liquidity Condition (as defined below). Closing of the Financing is subject to certain conditions, including the Agent's satisfactory due diligence review of us and the Target and the closing of the transactions contemplated by the Letter of Intent. The Engagement letter will terminate in the event the Financing is not closed by February 28, 2005.

Following the closing of the Financing we have agreed to use our best efforts to register the resale of the securities issued with the SEC, list our common stock on the American Stock Exchange or NASDAQ, and become a reporting issuer in a province or territory of Canada (collectively, the "Liquidity Condition").

### **Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The methods, estimates, and judgments we use in applying our most critical accounting policies have a significant impact on the results that we report in our financial statements. The SEC considers an entity's most critical accounting policies to be those policies that are both most important to the portrayal of a company's financial condition and results of operations, and those that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain at the time of estimation. We believe the following critical accounting policies, among others, require significant judgments and estimates used in the preparation of our financial statements:

- (i) **Property and Equipment**  
Property and equipment consists of furniture and equipment and leasehold improvements and is recorded at cost. Furniture and equipment and leasehold improvements are being amortized on a straight-line basis over their estimated useful lives of four years and three years, respectively.
- (ii) **Long-Lived Assets**  
In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets", the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that

may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

(iii) Revenue Recognition

The Company recognizes revenue from the sale of services in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition in Financial Statements." Revenue consists of consulting services and is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility is reasonably assured.

The Company continually monitors timely payments and assesses any collection issues. The allowance for doubtful accounts is based on the Company's detailed assessment of the collectibility of specific customer accounts. Any significant accounts that are not expected to be collected are excluded from revenue. Deferred revenue represents customer deposits, which are recognized as revenue once the criteria for SAB 104 have been met.

(iv) Foreign Currency Transactions/Balances

The Company's functional currency is the Canadian dollar. Occasional transactions occur in U.S. dollars, and management has adopted SFAS No. 52, "Foreign Currency Translation". Assets and liabilities denominated in foreign currencies are translated into US dollars at rates of exchange in effect at the balance sheet date. Average rates for the year are used to translate revenues and expenses. Resulting translation gains and losses are accumulated in a separate component of stockholders' equity as accumulated other comprehensive income or loss.

**New Accounting Pronouncements**

In December 2003, the United States Securities and Exchange Commission issued Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"), which supersedes SAB 101, "Revenue Recognition in Financial Statements." The primary purpose of SAB 104 is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, which was superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. The adoption of SAB 104 did not have a material impact on the Company's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of SFAS No. 150 apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS No. 150 does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. SFAS

No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatory redeemable financial instruments of non-public entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

### **Forward Looking Statements**

This Plan of Operations includes a number of forward-looking statements that reflect Management's current views with respect to future events and financial performance. Those statements include statements regarding the intent, belief or current expectations of us and members of our management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.

Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission. Important factors currently known to management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. We believe that its assumptions are based upon reasonable data derived from and known about our business and operations and the business and operations of the Company. No assurances are made that actual results of operations or the results of our future activities will not differ materially from its assumptions.

### **Item 3. Controls and Procedures**

Based on the evaluation of our disclosure controls and procedures by John Hromyk, our President and Principal Financial Officer, as of a date within 45 days of the filing date of this quarterly report, such officer has concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time period specified by the Securities and Exchange Commission's rules and forms.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

**PART II: OTHER INFORMATION**

**Item 1. Legal Proceedings**

Not applicable.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not Applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

31.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Principal Financial Officer).

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**COVENTURE INTERNATIONAL INC.**

December 15, 2004

By: /s/ John Hromyk  
John Hromyk, President, Principal Financial Officer  
and Principal Accounting Officer